Audit Report

OFFICE OF THE INSPECTOR GENERAL

QUICK-REACTION REPORT ON THE CONSTRUCTION OF A NEW DISTRIBUTION OPERATIONS CENTER AT THE RED RIVER DEPOT

Report No. 93-169 September 21, 1993

Department of Defense

DISTRIBUTION STATEMENT A
Approved for Public Release
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Acronyms

AOD	Area Oriented Depot
DLA	Defense Logistics Agency
DMRD	Defense Management Report Decision
GAO	General Accounting Office

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

September 21, 1993

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Quick-Reaction Report on the Construction of a Distribution Operations Center at the Red River Depot (Report No. 93-169)

We are providing this final report for your information and use. This report addresses the planned construction of a Distribution Operations Center at the Distribution Depot Red River, Texas, that was not economically justified. The Distribution Operations Center was one of only a few and was the most significant of the military construction projects planned at the distribution depots since the consolidation of the depots under the Defense Logistics Agency. Management comments on a draft of this report by the Principal Deputy Director, Defense Logistics Agency, were considered in preparing this final report.

Recommendations are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. Therefore, we ask that you provide final comments on the unresolved recommendations by October 20, 1993. We also ask that your comments indicate concurrence or nonconcurrence with the potential monetary benefits identified in Appendix A. If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence.

The courtesies extended to the audit staff are appreciated. Please contact Mr. Charles Hoeger, Program Director, in our Philadelphia Office at (215) 737-3881 or (DSN 444-3881), or Mr. John Issel, Project Manager, in our Columbus Office at (614) 337-8009 if you have any questions concerning this final quick-reaction report. The planned distribution of this report is in Appendix C.

EJones

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-169
(Project No. 2LD-2022.01)

September 21, 1993

QUICK-REACTION REPORT ON THE CONSTRUCTION OF A NEW DISTRIBUTION OPERATIONS CENTER AT THE RED RIVER DEPOT

EXECUTIVE SUMMARY

Introduction. This report is being issued as part of our Audit of FY 1993 Financial Statements for the Distribution Depots - Defense Logistics Agency Business Area of the Defense Business Operations Fund (Project No. 2LD-2022). The report states that the Defense Logistics Agency (DLA) could achieve savings of $58 million by reversing its decision to construct a distribution operations center at the Red River Depot.

Objectives. The audit objective partially addressed in this report was to evaluate distribution depot performance measures and other information used for support of the financial statement presentations. A key measure of performance for the DLA distribution depot business area was the achievement of substantial savings for the DoD through operational efficiencies and the reduction of planned construction projects at the distribution depots.

Audit Results. Although Congress provided funds for the construction of the facility at Red River, the distribution operations center was not economically justified. As a result, $58 million would be expended unnecessarily. Additionally, the construction would be contrary to the intent of the distribution depot consolidation, which was to eliminate projects no longer needed as a result of the consolidation.

Internal Controls. We did not evaluate internal controls because they were not applicable to the issue addressed in the report.

Potential Benefits of Audit. We identified potential monetary benefits of $58 million in funds that could be put to better use (see Appendix A).

Summary of Recommendation. We recommended that the Director, DLA immediately suspend actions to award contracts for construction of the new facility and that DLA update its economic analysis based on revised future workload estimates and its new stock positioning plans. We also recommended that DLA request relief from congressional language that supports construction of the facility at Red River unless it can be economically justified.

Management Comments. The Director, DLA nonconcurred with the recommendations to suspend construction of the center, stating that the distribution operations center was justified based on economics and mission requirements. The Director also stated that a revised economic analysis, prepared in response to the audit, supports DLA's position. The complete text of management's comments is in Part IV of the report.

Audit Response. We continue to believe that DLA should suspend actions to award contracts for the distribution operations center until it has determined the most economical positioning of DoD stocks. The full audit response to management comments is in Part II of the report. The DLA response did not provide the specific facts on which its conclusion was based. We request that DLA provide supporting details for the revised economic analysis and provide comments to the final report by October 20, 1993.

Table of Contents

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

As part of the Audit of FY 1993 Financial Statements for the Distribution Depots - Defense Logistics Agency Business Area of the Defense Business Operations Fund (Project No. 2LD-2022), we reviewed the Defense Logistics Agency's (DLA) decision to construct a distribution operations center at the Red River Depot.

Distribution depots receive, store, and issue supplies to support DoD's forces worldwide. Before consolidation of the DoD distribution depots under the Defense Management Review Decision (DMRD) 902, each of the Services and DLA operated and managed its own depots. On April 12, 1990, the Deputy Secretary of Defense approved implementation of DMRD 902, consolidating all distribution depots under DLA. The consolidation of the distribution depots into a single depot system was expected to result in significant savings for the DoD through improved operational efficiencies, and elimination of the need to construct some facilities planned by the Services and DLA before consolidation through better utilization of existing facilities. DLA estimated that the consolidation actions would result in a $1.2 billion savings over 7 years. Those savings were to be achieved through operational efficiencies ($837.7 million) and the reduction in additional facility construction requirements ($402.8 million). Since consolidation of the DoD distribution depots under DLA, significant savings, about $107.9 million, have been achieved by canceling unneeded construction projects.

Objectives

The audit objective partially addressed in this report was to evaluate distribution depot performance measures and other information used for support of the financial statement presentations. A key measure of performance for the DLA distribution depot business area was the achievement of substantial savings for the DoD through operational efficiencies and the reduction of planned construction projects at the distribution depots.

Scope

We reviewed records of the Army Depot System Command and DLA covering the period November 1990 through March 1993 on the construction of a distribution operations center at the Distribution Depot Red River, Texas. We also reviewed DMRD 902 on consolidation of the DoD distribution depots, the DLA plan to achieve estimated DMRD 902 savings through the reduction of construction projects at the depots as a result of the consolidation, and the DLA plans for stock repositioning and projected reduction of distribution depot

work load based on force structure drawdown. Additionally, we discussed the justification for the Red River facility with senior management personnel from the Office of the Assistant Secretary of Defense (Production and Logistics), Army Depot System Command, DLA, the former Defense Distribution Region Central, Defense Distribution Region West, and the Red River Distribution Depot. We did not review the DLA plans for operational savings in accordance with DMRD 902 because of the recent General Accounting Office (GAO) Report No. NSIAD-92-136 (OSD Case No. 8986), "DoD Actions Needed to Ensure Benefits From Supply Depot Consolidation Efforts," May 29, 1992. This economy and efficiency audit was made from September 1992 through July 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Organizations visited or contacted during the review are listed in Appendix B.

Internal Controls

A review of internal controls was not applicable to the issue addressed in this report.

Prior Audits

During the last 5 years, GAO issued two audit reports related to the issue addressed in this quick-reaction report. GAO Report No. NSIAD-92-136, stated that in order to achieve the full benefits of distribution depot consolidation the Secretary of Defense should increase DoD's efforts to reduce the amount of stock in the supply depots. Removing unneeded stock could lead to reducing the number and size of depots. Additionally, reported savings from consolidation was overstated because DLA had not separated the savings attributable to consolidation from those resulting from decreased work load. GAO recommended that the Director, DLA, be instructed to develop a supply depot organization and stock repositioning plan based on reduced DoD inventory. The Assistant Secretary of Defense (Production and Logistics) agreed that DLA should develop the plan.

GAO Report No. NSIAD-90-184 (OSD Case No. 8305), "Plans Abandoned for the New Distribution Center at the Red River Depot," August 20, 1990, stated that the construction of an automated distribution center at Red River was no longer needed. GAO recommended that funds for the distribution center be rescinded. The Assistant Secretary of Defense (Production and Logistics) agreed and stated that it had identified $39 million appropriated for the Red River center that could be rescinded.

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Part II - Finding and Recommendations

Distribution Operations Center Justification

The DLA decision to pursue the construction of a distribution operations center at the Red River Depot was not justified. The condition occurred because the economic analysis performed to justify the construction of the facility contained overstated workload estimates and was not appropriately updated in consideration of DLA stock positioning plans. Continuation of the project would result in the unnecessary expenditure of about $58 million and would be contrary to the intent of DMRD 902.

Background

DLA assumed responsibility for the Red River distribution depot in October 1991. The Red River Depot was previously part of the Army Depot System Command. The Army had planned to base its distribution system on three primary depots called Area Oriented Depots (AODs). The three were New Cumberland Depot (New Cumberland, Pennsylvania), the Red River Depot (Texarkana, Texas), and the Sharpe Depot (Stockton, California). The AODs were to fill 95 percent of the wholesale requisitions for Army items. To handle the estimated work load, the AODs were to construct distribution operations centers with state-of-the-art automation, at an estimated cost of about $658 million. Automated distribution operations centers were constructed at New Cumberland and Sharpe.

In response to GAO Report No. NSIAD-90-184, the Assistant Secretary of Defense (Production and Logistics) and the Army agreed with GAO that the construction of a center at Red River at a cost of $211 million could not be justified and that the centers at New Cumberland and Sharpe could handle the Army's expected AOD work load. As a result, DoD requested that Congress rescind the $39 million in military construction (MILCON) funds appropriated for initial construction of the center at Red River. The Senate and the House of Representatives denied the request. The House of Representatives Report No. 101-608, "Military Construction Appropriations Bill, 1991," July 19, 1990, stated:

> The Committee denies the Department of Defense (DOD) request to rescind the $39 million appropriated for the construction of the Central Distribution Center (CDC) project. The Committee further directs the Department of Defense to not use or transfer any of the $39 million for any purpose not solely related to the construction of the CDC project at Red River Depot.

Following the issuance of Congressional Report No. 101-608, the Red River Depot distribution function was transferred to DLA as part of the DMRD 902 consolidation of DoD's distribution functions. Congress also transferred the $39 million for the Red River center to DLA. DLA reduced the scope of the proposed $211 million center at Red River and plans to build the center for the $39 million appropriated with another $19 million in other procurement funds to equip the center after construction. To date, DLA has approved the expenditure of about $2.3 million to design the center and plans to award a construction contract upon completion of the design. The initial contract for preparation of the construction site was awarded on July 29, 1993. The design of the facility is scheduled to be completed during the first quarter of FY 1994 and DLA anticipates awarding the contract to build the facility during the second quarter of FY 1994.

Evaluation of Economic Analysis

After the congressional transfer of the $39 million in MILCON funds for the distribution center, DLA tasked Red River Depot management personnel to prepare an economic analysis to determine if continuation of the project was justified. The analysis was completed in January 1992. DoD Instruction 7041.3, "Economic Analysis and Program Evaluation for Resource Management," October 18, 1972, provides guidance on the preparation of an economic analysis. The Instruction requires that the analysis be updated as significant developments occur that could invalidate or significantly alter the cost-benefit relationships upon which previous decisions were made. Our review of the January 1992 economic analysis disclosed that it was based on overstated workload data and inappropriate stock positioning plans.

Work Load. The primary work load of a distribution depot is measured by the total number of issues of materiel and receipts of materiel during a year. The estimated annual work load used in the January 1992 economic analysis to justify construction of the distribution operations center at Red River was 2.2 million lines (that is, 1.8 million line items issued and 0.4 million line items received). The estimated annual work load should have been, but was not adjusted in accordance with DLA guidance issued on March 12, 1993, titled "Defense Distribution Depot Resource Guidelines." Because of DoD's decisions on force structure and inventory level drawdowns, DLA directed that each distribution depot's estimated workload projections be reduced by 10 percent for each of the next 3 years. As stated in DoD Instruction 7041.3, the analysis should have been updated as significant developments occurred that invalidated the prior analysis.

Using DLA's guidance and actual workload data, the Red River Depot's estimated work load should not exceed 1.24 million lines issued and received by FY 1995. The revised workload estimate represents 56 percent of the work load used in the January 1992 economic analysis. Our calculation of estimated work load in accordance with DLA guidance is shown in the following Table.

Table. Red River Depot's Estimated Future Work Load

(Millions)

	FY 1992 Actual	FY 1993 Forecast (-10%)*	FY 1994 Forecast (-10%)*	FY 1995 Forecast (-10%) *
Receipts	0.32	0.28	0.26	0.23
Issues	1.39	1.25	1.12	1.01
Total	1.71	1.53	1.38	1.24

* Reduction of 10 percent in work load for each of the next 3 years.

Future work load at the Red River Depot could decline more than that indicated in the above table. For example, the central region, which had management responsibility for Red River's distribution operations, had estimated that the depot's work load would decline to 1.15 million lines issued and received by FY 1995. The central region estimate was based on the repositioning of some Red River stocks to the Memphis Depot in line with the DLA stock positioning plans (additional details in the following paragraph), in addition to the reduction projected due to force structure and inventory reductions. On February 14, 1993, the central region was dissolved and management responsibility for the Red River distribution depot was realigned to the west region.

Stock Positioning Plan. Additional workload reductions could occur at the Red River distribution depot as a result of DLA's stock positioning plan. To achieve some of the savings identified in DMRD 902, DLA's current plans provide for repositioning materiel stocks with a high rate of demand to two primary distribution sites. The two primary sites are the New Cumberland/Mechanicsburg Depot Complex in Pennsylvania and the San Joaquin Complex in California, which includes the Sharpe automated distribution operations center. Because DLA had not finalized its materiel repositioning plans and the west region had not evaluated Red River's workload projections because of the recent transfer of the depot, we could not specifically quantify the impact on Red River's work load. The impact could be substantial, particularly if all high demand items were transferred to the two primary distribution sites.

The Red River distribution depot operations are essentially the same as when Red River was designated an Army AOD with the responsibility for storing and distributing stocks to Army units throughout the central part of the United States. The Assistant Secretary of Defense (Production and Logistics) agreed on June 28, 1990 that the Red River area oriented work load (that is, work load other than that required by the Army maintenance facility at Red River) could

be handled by other depots and that a new center at Red River could not be economically justified. We recognize that DLA scaled down the size of the operations center planned for Red River from the state-of-the-art facility originally planned by the Army and that due to the condition of some of the facilities, a certain amount of upgrading or construction of storage buildings will be needed. However, until DLA completes its stock positioning plan and determines the impact on Red River's work load and materiel stockage requirements, construction of the distribution operations center at Red River cannot be justified.

Summary

Although Congress appropriated funds for the center, DLA should not proceed with plans to build the facility unless those plans can be economically justified. The economic analysis performed to justify the construction of the facility contained workload estimates that were invalid and overstated as of the time of the audit and did not give due consideration to DLA stock positioning plans. Discontinuing plans to construct the new center at Red River represents an opportunity for DLA to achieve additional savings of $58 million.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Logistics Agency:

1. Immediately suspend actions to award contracts to construct and equip a distribution operations center at Defense Distribution Depot, Red River.

Management Comments. The Principal Deputy Director nonconcurred with Recommendation 1., stating that the center was justified based on economics and mission requirements. DLA had reduced the number of primary distribution sites from three to two. Further, under the current stockage policy, no Army managed materiel will be repositioned and DLA managed materiel that supports the maintenance function will continue to be stocked at the depot based on the level of demand. The Red River Depot work load is forecasted at 1.4 million lines by FY 1998. This projection includes the transfer of Tooele Depot work load, which is scheduled to close as a result of the base realignment and closure decision. Moreover, the Principal Deputy Director stated that the audit results appear to be based solely on through-put work load, while the largest portion of the distribution operations center is designed for storage. Many of the items that will be stored at the Red River Depot are not considered high popularity (that is, demand) type items, which means there will be a storage requirement for the items with minimal output. The complete text of DLA's comments is in Part IV.

Audit Response. The audit report was revised to reflect DLA's decision to operate two primary distribution sites and to recognize that the estimated cost of the facility was changed to $58 million versus the original estimate of $64 million. We, however, continue to believe that DLA should suspend actions to award contracts for the distribution operations center until it has completed its stock positioning plans and determined the most economical positioning of DoD stocks. Additionally, the Assistant Secretary of Defense (Production and Logistics) and the Army previously agreed that two primary distribution sites could handle much of Red River's work load. Even with the transfer of the Toole Depot distribution work load, Red River's work load is expected to decrease substantially from current levels.

DLA is correct in that our review concentrated on justification for the facility based on through-put work load. Because DLA planned to construct a $58 million distribution operations center instead of a minimally priced storage facility, we consider our approach appropriate. DMRD 902 consolidated 30 distribution depots under DLA with the mandate to improve the use of existing facilities and eliminate the continued construction of additional distribution facilities that was ongoing when the depots were controlled by each of the Military Departments and DLA. Much of the materiel planned for storage at Red River has a minimal output requirement. With DoD's emphasis on reducing inventory requirements and as a result of the consolidation of the distribution depots, a new distribution operations center should not be needed for materiel with little or no movement; and in a time of drastically decreased operating tempo, DLA should rely on its existing facilities to store materiel with minimal output requirements. To illustrate, DLA estimates that it has about 220 million attainable cubic feet of storage space that exceeds future storage requirements. We request that DLA reconsider its comments to the draft report and provide comments to the final report.

2. Update the economic analysis performed in January 1992, to include estimates of projected work load based on Defense Logistics Agency's guidance and stock positioning plans.

Management Comments. The Office of the Comptroller partially concurred with Recommendation 2., stating that recommended action has already been taken. The economic analysis was updated and resulted in an increase to the saving-to-investment ratio, which supports the continuation of the project. A copy of the revised economic analysis was provided to the auditors on July 27, 1993. The complete text of DLA's comments is in Part IV.

Audit Response. Even though we were provided a copy of the revised analysis, we did not receive sufficient information on which to form an opinion on the validity of the analysis. Certain factors require further analysis and clarification. For instance, the work load on which the analysis was based decreased by 36 percent, yet the saving-to-investment ratio increased in the revised analysis. The analysis contained other questionable features such as an increase in the cost of direct labor of $23.4 million (that is, labor costs would be 227 percent greater) if the depot were to operate in a leased facility within 25 miles of Red River versus the labor cost of operating the proposed distribution operations center. Moreover, the revised economic analysis

indicated that the Red River Depot work load would have to decrease by 92 percent before it would be more economical to operate under the analysis' "status quo" alternative. A 92-percent reduction in work load equates to the issue and receipt of only 112,000 lines per year. At this level, DLA would have to seriously consider closing down the operation. We request that DLA provide us the supporting details of the revised economic analysis and reconsider its position in response to the final report.

3. Notify Congress of the suspension and again request relief from the congressional language requiring construction of the facility, in view of the change in mission and work load, unless the project can be economically justified.

Management Comments. The Office of the Comptroller nonconcurred for the reasons stated in response to Recommendations 1. and 2.

Audit Response. See our response to management comments to Recommendations 1. and 2. We request that DLA reconsider its position in response to the final report.

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Part III - Additional Information

Appendix A. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1., 2., and 3.	Improving economy of operations by canceling planned construction of a facility that is not economically justified.	Funds put to better use of $58.0 million, which consists of $39.0 million (MILCON) to construct and $19 million (Defense Business Operations Fund, Capital) to equip the new facility. There may be some offsetting costs to upgrade existing facilities or to construct storage buildings. The offsetting costs cannot be quantified at this time.

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Arlington, VA

Department of the Army

U.S. Army Depot System Command, Chambersburg, PA
Red River Army Depot, Texarkana, TX

Defense Agencies

Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Distribution Depot Region Central, Memphis, TN
Defense Distribution Depot Region West, Stockton, CA
Defense Distribution Depot Memphis, Memphis, TN
Defense Distribution Depot Red River, Texarkana, TX

Appendix C. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense

Defense Logistics Agency

Director, Defense Logistics Agency
Commander, Defense Distribution Depot Region West
Commander, Defense Distribution Depot Red River

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office,
  National Security and International Affairs Division, Technical Information Center
  National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
  National Security and International Affairs Division, Military Operations and Capabilities Issues

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
House Committee on Governmental Operations
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO FOI

12 AUG 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Quick-Reaction Report on the Construction of a Distribution Operations Center at the Red River Depot (Project No. 3LD-2022.01)

This is in response to your 14 July 1993 request for comments.

3 Encl
w attachment

FOR JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of Comptroller

Defense Logistics Agency Comments

FORMAT 1 OF 3

TYPE OF REPORT: AUDIT DATE OF POSITION: 11 Aug 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Draft Quick-Reaction Report on the Construction of a Distribution Operations Center at the Red River Depot (Project No. 2LD-2022.01)

RECOMMENDATION 1: We recommend that the Director, Defense Logistics Agency, immediately suspend actions to award contracts for site preparation and to construct and equip a distribution operations center at the Defense Distribution Depot, Red River.

DLA COMMENTS: Nonconcur. The draft report assumed that a substantial amount of materiel will be repositioned to one of the three Primary Distribution Depots (PDS). This was based on an outdated DLA stockage plan for Red River. Army reparables currently stored at Red River to support the Army's maintenance mission will continue to be stored at that depot. The DLA managed materiel that supports maintenance at DDRT will continue to be stocked there based on demand. GAO report AFMD-93-8 identified large quantities of materiel improperly stored outside at Red River. Our storage plan required the movement of that materiel to covered storage space. Due to a shortage of covered storage space at Red River we currently have materiel stored at Savanna Army Depot, Granite City and Lone Star Ammo Depot. A large portion of this materiel will be repositioned at Red River as space becomes available. Red River has been identified as one of the major receipt depots for European returns. Additionally, the BRAC 93 report directs the closure of Tooele Army Depot and the movement of that mission to Red River. This will increase current storage requirements at Red River by 95 percent. The DDRT workload is forecasted to reduce from the current 1.7 million lines in and out to 1.4 million lines by FY 98. This projection includes the transfer of the Tooele depot workload. This adjusted workload is considered in revised economic analysis supporting the construction.

The conclusion of the draft report appears to be solely based on the through-put workload. While this is an important factor, the largest portion of this facility is designed to be utilized for storage. Many of the items that will be stored at DDRT are not considered high popularity type items, which means there will be a storage requirement for these type items with minimal output. The Base Realignment and Closure (BRAC) analysis took into consideration a 30 percent inventory reduction, properly storing materiel improperly stored outside, increased returns from European drawdown, the loss of obsolete facilities and the transfer of the Tooele Depot workload to DDRT. The BRAC analysis included the 4.5 million attainable cubic feet (ACF) from the construction of the Distribution Operations Center (DOC), 2.2 million ACF obtained by converting current operational areas back to storage and the 2.9 million ACF from new BRAC warehouse construction to support the DDRT mission.

The DOC project as currently being designed is justified based on economics and mission requirements; therefore, we are continuing with the design of this facility.

DISPOSITION:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

Defense Logistics Agency Comments

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

(X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

( ) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Jim Sanchez, MMDO, x46253, 7/27/93

PSE REVIEW/APPROVAL: Robert P. McFarlin, BG, USA, Executive Director, Distribution, MMD

DLA APPROVAL: Lawrence P. Farrell, Jr.
Major General, USAF
Principal Deputy Director

Defense Logistics Agency Comments

FORMAT 2 OF 3

TYPE OF REPORT: AUDIT DATE OF POSITION: 11 Aug 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Draft Quick-Reaction Report on the Construction of a Distribution Operations Center at the Red River Depot (Project No. 2LD-2022.01)

RECOMMENDATION 2: We recommend that the Director, Defense Logistics Agency, update the economic analysis performed in January 1992, to include estimates of projected work load based on the Defense Logistics Agency's guidance and stock positioning plans.

DLA COMMENTS: Partially concur; recommended action has already been taken. The DOC project economic analysis (EA) was updated to reflect current stock positioning policy, forecasted workload and the FY 93 BRAC decisions. The revised analysis resulted in an increase of the savings-to-investment ratio to 2.34. A savings-to-investment ratio of 2.34 is considered an excellent investment opportunity and fully supports the continuation of this project. A copy of the revised EA as provided to Mr. Eric Thacher DoD IG office Gahanna, OH on 27 Jul 93 is attached.

DISPOSITION:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Jim Sanchez, MMDO, x46253, 7/27/93
PSE REVIEW/APPROVAL: Robert P. McFarlin, BG, USA, Executive Director, Distribution, MMD

DLA APPROVAL: Lawrence P. Farrell, Jr.
Major General, USAF
Principal Deputy Director

w/attach

Defense Logistics Agency Comments

FORMAT 3 OF 3

TYPE OF REPORT: AUDIT DATE OF POSITION: 11 Aug 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Draft Quick-Reaction Report on the Construction of a Distribution Operations Center at the Red River Depot (Project No. 2LD-2022.01)

RECOMMENDATION 3: We recommend that the Director, Defense Logistics Agency, notify Congress of the suspension and again request relief from the congressional language requiring construction of the facility, in view of the change in mission and workload, unless the project can be economically justified.

DLA COMMENTS: Nonconcur for the reasons stated in recommendations 1 and 2. The construction of this facility is justified and required to support the current and forecasted distribution missions at the Red River Distribution Depot.

DISPOSITION:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
(X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Jim Sanchez, MMDO, x46253, 7/27/93
PSE REVIEW/APPROVAL: Robert P. McFarlin, BG, USA, Executive Director, Distribution, MMD

DLA APPROVAL: Lawrence P. Farrell, Jr.
Major General, USAF
Principal Deputy Director

Audit Team Members

Shelton R. Young	Director, Logistics Support Directorate
Charles F. Hoeger	Program Director
John K. Issel	Project Manager
Eric T. Thacker	Auditor

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Quick-Reaction Report on the Construction of a New Distribution Operations Center at the Red River Depot

B. DATE Report Downloaded From the Internet: 04/19/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): **OAIG-AUD (ATTN: AFTS Audit Suggestions)**
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 04/19/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.